

An abstract artwork on the left side of the page. It features a large, semi-circular clock face with numbers 1 through 12, set within a dark rectangular frame. Below the clock, a hand is depicted in a gesture, with fingers spread, also within a dark rectangular frame. The background is a textured, mottled purple and blue. The overall composition is layered and complex.

2007 Annual Compliance Report

*Office of
Enterprise
Compliance*



California
Public Employees'
Retirement System

2007

Annual Compliance Report
of the Chief Compliance Officer

Prepared by the CalPERS Office of Enterprise Compliance

Under the direction of the Chief Compliance Officer

© CalPERS
400 Q Street
Sacramento CA 95811
888 CalPERS (or 888 – 225 – 7377)
www.calpers.ca.gov

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Chair of the Finance Committee's Letter of Transmittal



Robert F. Carlson
Chair,
CalPERS Finance Committee

February 21, 2007



Members of the CalPERS Board of Administration

I am pleased to present CalPERS Annual Compliance Office report for the one-year period ended December 31, 2007.

This report provides a summary review of our compliance program accomplishments last year and outlines our compliance planning efforts for the coming year.

Four years ago, the CalPERS Board had a vision to create an enterprise-wide compliance program to sustain an organizational culture that promotes and supports compliance in the daily operations of our business lines – investments, health care, and pension. Our goal was to operate our System under full and complete compliance within all applicable laws, rules, regulations, policies and best practices.

Today, our compliance program has become a model for national and international public pension funds. Our efforts have also led to the creation of a national council of compliance officers that enables pension funds from around the world to dialogue and exchange ideas and best practices on compliance functions.

As senior member of the CalPERS Board and Chair of our Finance Committee, I am very proud to have been part of this effort. I want to thank our Board for their collective vision on compliance and the commitment and work outlined in this report completed by our Executive management team and staff. I am confident that our compliance program is well on its way to creating a strong foundation for the delivery of retirement and health benefits to our members and employers in accordance with proper laws and best practices.

Sincerely,

Robert F. Carlson, Chair
CalPERS Finance Committee

Chief Executive Officer's Message



February 21, 2007



Fred Buenrostro
Chief Executive Officer

CalPERS operates in a rapidly changing business environment that requires us to pay close attention to compliance in our investment, health care and retirement programs. Changes in laws, technology and regulations have required us to remain focused and disciplined in developing a compliance program that effectively establishes clear lines of authority and assesses risk across our enterprise.

This report outlines the accomplishments made by our Chief Compliance Officer and staff in the last year and sets forth a path for our ongoing efforts in the future.

I am pleased to report we completed a thorough review of our investment proxy voting function during the year and instituted an automated proxy voting platform that will ensure we adhere to our Board approved proxy voting guidelines and policies. We conducted a review of mutual fund proxy voting standards as it relates to best practices in the financial services industry. We assessed the risks, rules and regulations to determine compliance and non-compliance exposures as it relates to the Federal Pension Protection Act of 2006, a reform aimed at ensuring greater retirement security for American workers. We also completed and implemented the first-ever enterprise-wide risk assessment in conjunction with our Office of Audit Services.

Training and awareness were again a focus of our compliance agenda in 2007. Our compliance program rolled out a "Working Values" compliance training course for our New Employee Orientation that emphasizes the importance of ethical and compliant behavior in our daily work.

In closing, I would like to thank CalPERS General Counsel, Peter Mixon and Chief Compliance Officer, Sherry Johnstone for their efforts and commitment to our compliance program. With their leadership, we will continue to pursue compliance in every part of our business to ensure we are protecting the best interests of our members and employers.

Sincerely,

Fred Buenrostro
Chief Executive Officer

Acknowledgements

The Chief Compliance Officer would like to acknowledge the following groups and individuals for their contributions toward establishing a successful enterprise-wide compliance program and the completion of this report:

- The Finance Committee Chair, Chief Executive Officer, and the General Counsel for their strong support of the Office of Enterprise Compliance and its mission and activities.
- The Legal Office and the Office of Audit Services for their valuable ongoing partnership and support of the Office of Enterprise Compliance's activities, assisting with the creation and development of an innovative, responsive, and effective compliance program.
- The Executive Team and Senior Management, for their support and leadership in successfully introducing, establishing and developing the new enterprise-wide compliance program.
- All of the Divisions for their contributions to this report and for their ongoing compliance efforts throughout the year.

ABOUT CalPERS



The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with assets at December 31, 2007, of approximately \$254.6 billion. Internationally, CalPERS ranks among the top four largest pension funds in the world, and is surpassed only by the government pension funds in Japan, Norway, and the Netherlands.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to nearly 1.5 million people and more than 2,600 public employers. CalPERS investment earnings pay three-quarters of the retirement benefits for its members, and in 2007, the market value of the CalPERS portfolio broke \$250 billion. CalPERS also operates eight Regional Offices located in Walnut Creek, Glendale, Orange County, Fresno, Sacramento, San Bernardino, San Diego, and San Jose.

CalPERS is led by a 13-member Board of Administration (the Board), consisting of member-elected, appointed, and ex officio members. As of June 30, 2007, we provided retirement benefits to 1,086,900 active and inactive members from the State, school districts, and local public agencies and 455,208 retirees, beneficiaries, and survivors. CalPERS provided health benefits to over 1.2 million active and retired members from the State, school districts, and local public agencies.

Key Dates in CalPERS History:

- 1931** CalPERS was established in law
- 1932** CalPERS began administering retirement benefits for State employees
- 1939** Public agencies and classified school employees were allowed to contract with CalPERS to provide retirement benefits for their employees
- 1962** CalPERS began administering health insurance benefits for State employees
- 1967** Public agencies and classified school employees were allowed to contract with CalPERS to provide health benefits for their employees
- 1984** CalPERS initiated a corporate governance reform program
- 1990** The Long Term Care Act passed, allowing CalPERS to offer Long Term Care insurance to CalPERS members, California State Teachers' Retirement System (CalSTRS) members, and members who were eligible under the County Employees' Retirement Law of 1937
- 1992** Proposition 162 was approved by voters, giving the CalPERS Board absolute and exclusive authority over the administration and investment of pension funds
- 1996** The Long Term Care (LTC) Program expanded to include all California public employees and retirees

- 1996** CalPERS launched the International Corporate Governance Program
- 1997** CalPERS adopted corporate governance principles for United Kingdom
- 1997** CalPERS increased public disclosure of decision making
- 1998** CalPERS adopted U.S. corporate governance standards
- 1999** CalPERS launched a corporate governance website, drawing worldwide interest
- 2002** CalPERS launched a financial market reform initiative with principles and an action plan to prevent future Enron-type accounting abuses
- 2003** CalPERS adopted a plan to crack down on executive compensation abuses
- 2004** Appointment of CalPERS Chief Compliance Officer (CCO) and creation of enterprise-wide compliance and monitoring program
- 2007** CalPERS launched a plan to help contracting agency and school employers pre-fund their future health benefit and other post-employment benefit (OPEB) obligations



Compliance at CalPERS

Compliance programs have traditionally been structured around the minimum requirements established by the United States Sentencing Commission's "Organizational Sentencing Guidelines" as the hallmarks of an effective compliance and ethics program. Under these guidelines (see Appendix A), an effective program is maintained to exercise due diligence to prevent and detect criminal conduct and promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. An ultimate goal of any compliance program is to help an organization's employees, managers, and governing body to simply do a better job, as well as identify and prevent improper conduct.

To uphold this spirit of ethical conduct and to better protect our members' best interests, CalPERS remains committed to full and complete compliance with all applicable laws, rules, and regulations. The Board, and specifically the Board's Finance Committee, requested that the CCO role be created and directed staff to create the concept paper or framework for the creation of the Office of Enterprise Compliance (ECOM).

ECOM intends to bring increased transparency to the adequacy and integrity of CalPERS internal control systems by creating a centralized monitoring function and continually reporting the efficiency of these controls to the Finance Committee. In addition, ECOM has extended its outreach efforts to create opportunities to benchmark and identify "best practices" in various business industries and with external agencies in order to provide greater assistance and advice to management of our primary business lines.

This is the third Annual Report for ECOM and summarizes CalPERS 2007 compliance-related accomplishments and upcoming goals for 2008.

CalPERS CCO regularly reports to the Finance Committee on the progress of the compliance program and makes recommendations for improvements to the internal control systems. In 2007, the CCO presented status reports of enterprise compliance activities to the Finance Committee at each of its seven meetings. The CCO also provided the Finance Committee with highlights of the Staffing Plan and quarterly and annual reports.

CalPERS compliance function is an integral part of the CalPERS internal control structure. In this role, the compliance office:

- Functions as part of the business structure and decision-making process
- Conducts employee compliance training
- Develops compliance policies and procedures (including best practices)
- Conducts routine compliance monitoring

Office of Enterprise Compliance

Mission Statement

The mission of the ECOM is to ensure, promote and support an organizational culture which builds compliance awareness into the daily business processes for investments, health and pension. We will accomplish this mission by monitoring CalPERS business activities, policies, and procedures, and by establishing an infrastructure that provides assurance to management that program areas comply with all applicable laws, regulations, policies, and best practices.

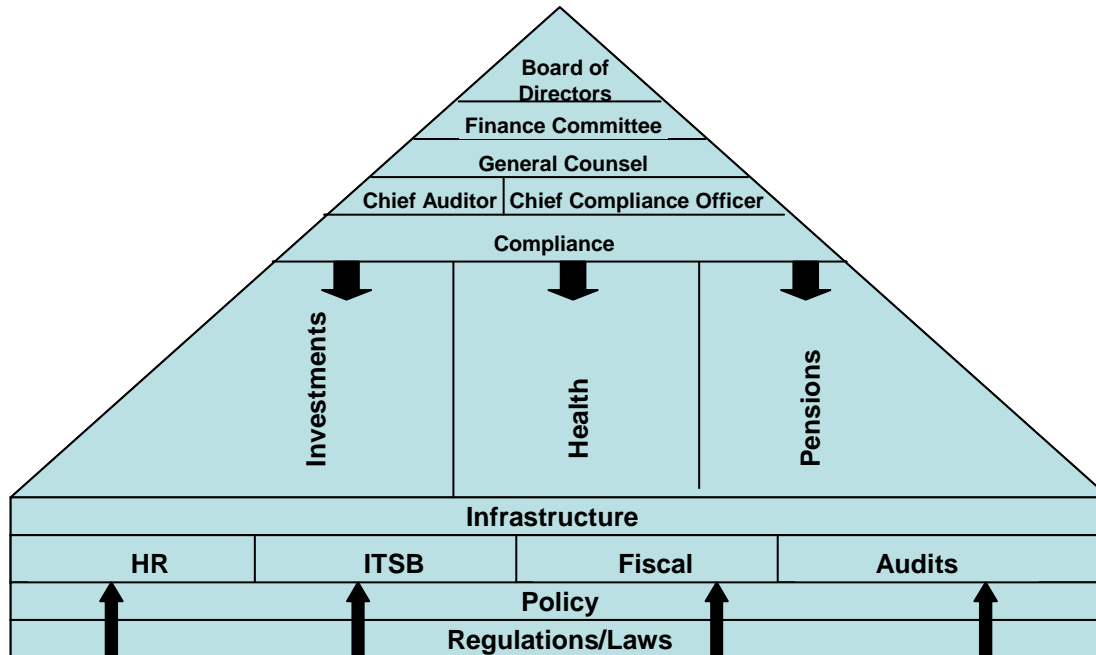


Compliance Program Structure

CalPERS faces an increasingly complex and challenging regulatory environment. In 2004, the CalPERS Finance Committee approved the concept paper describing the need to establish the ECOM, to assist CalPERS in attaining compliance, faced with a complex and quickly changing legal and regulatory environment. The ECOM was charged with the responsibility for formalizing the compliance effort at CalPERS and constructing an enterprise-wide compliance program that builds compliance awareness into daily business activities.

Under the authority and guidance of the Finance Committee Chair, Chief Executive Officer (CEO), and General Counsel, ECOM staff work with the other CalPERS program areas, assisting them to identify potential compliance issues and develop mitigation strategies, consistent with best practices. ECOM staff works closely with the Office of Audit Services (OFAS), for assistance in identifying areas of potential risk. The Legal Office (LEGO) also

works closely with ECOM and program staff to clarify legal requirements and assist in making sure that proposed mitigation strategies appropriately and accurately address relevant legal and regulatory requirements. This compliance model can be illustrated as:



Organizationally, the CCO reports administratively to the General Counsel, and has direct reporting responsibility to the CEO and the Finance Committee. The CCO has access and delegated authority to discuss compliance with the Chair of the Finance Committee, the CEO, the General Counsel, and management as necessary.

Current Staffing Structure

Currently, the ECOM has 7 positions with an operating budget of approximately \$726,500.

Patrick Gage served as the Assistant Division Chief from January 2007 to November 2007. In December, 2007, Debbie Bennett was appointed as the Assistant Division Chief.

Specifically the succession plan calls for a Compliance Area Manager (CAM) for each of the three primary business lines (Investments, Health and Pension). The CAMs are business specialists who develop, monitor, and report compliance events, emerging trends, and risks within CalPERS primary business lines. During 2007, all three of these positions were filled, and staff began developing formalized compliance programs and monitoring tools in each of the three business lines.

The succession plan also calls for the establishment of four analyst positions to assist and support the CAMs in research and monitoring efforts. One analyst position was established

and filled in 2007, to assist the Investment CAM. The ECOM also established and filled a support analyst position in 2007, to provide administrative support for compliance staff.

The current overall structure of the ECOM's compliance function and proposed growth positions is illustrated in the chart on page 13.

Five Year Staffing Plan

At the direction of the Finance Committee Chair, the CCO created a five-year plan charting the future staffing of the ECOM. At the three year milestone, the ECOM is on the path towards the enterprise compliance program becoming a mature, integrated function at CalPERS. The plan follows the initial outline of the Board's approved "concept paper," which outlines a basic foundation for compliance efforts. The long-term plan includes justification for additional staffing, staff development, and a comprehensive program implementation and succession planning strategy.

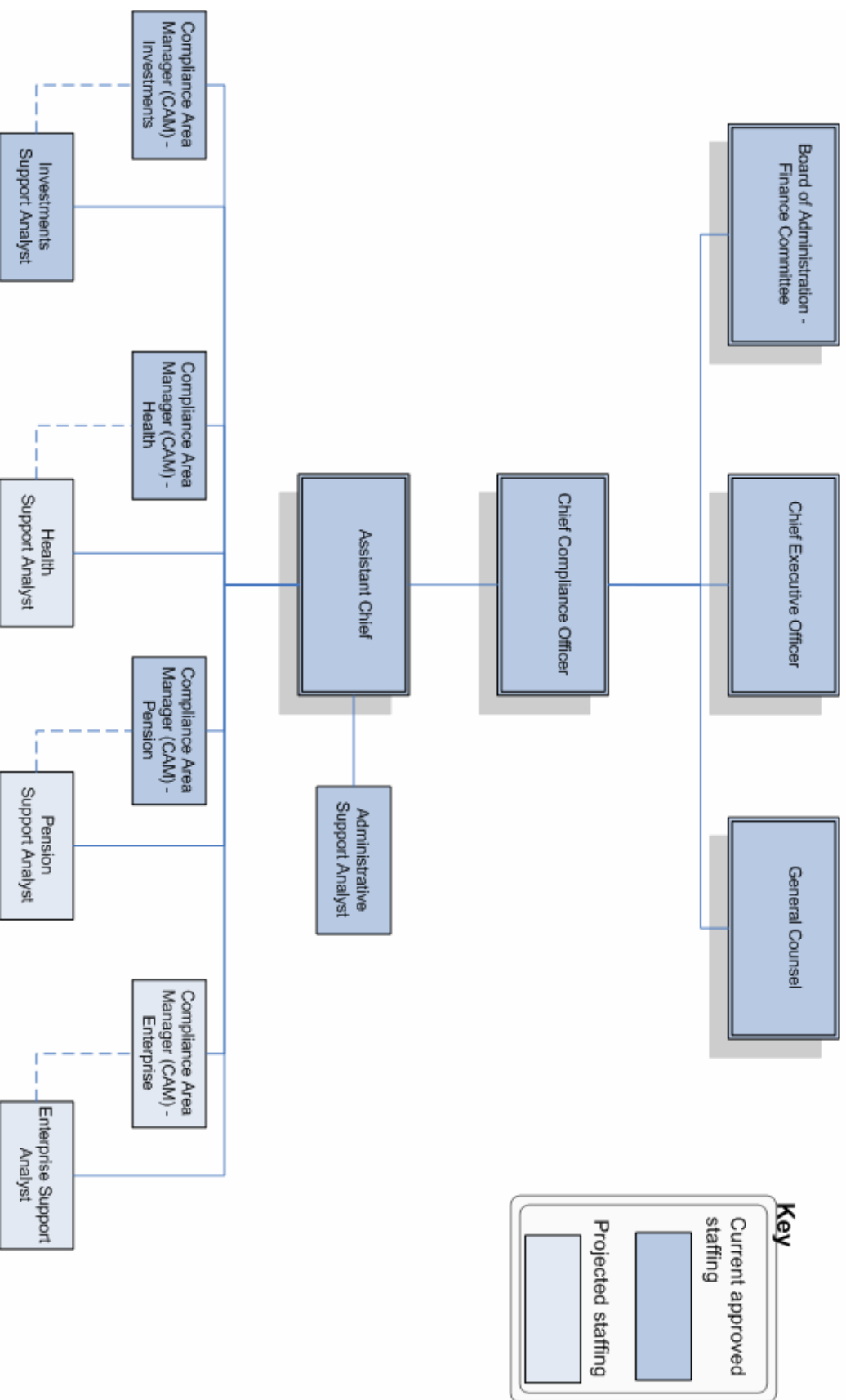
Future goals contained in the ECOM staffing plan include:

- Establishing an Enterprise CAM dedicated to monitoring and advising management on compliance issues in the Fiscal Services Division (FCSD), Operations Support Services Division (OSSD), Human Resources Division (HRSD), Information Technology Services Branch (ITSB), and Information Security Office (ISO).
- Adding four analysts to assist the CAMs in research and monitoring efforts. The analysts will maintain the Compliance Resource Library, develop and make changes to the website resource information, provide high-level research work related to all business lines, and assist in enterprise risk assessment and reporting. The table below shows the projected growth and the organization chart illustrates the projected structure.

These positions will be phased in based on workload needs and justifications.

Projected Growth	
Position	Recruitment Target
Compliance Area Manager – Enterprise	Second Quarter 2008
Support Business Line Analysts (4)	FY 2008-09

CalPERS Office of Enterprise Compliance **Projected Staffing (to FY 2008-09)**



Compliance Program Management

In support of CalPERS compliance efforts, ECOM staff:

- Gathers, organizes, and analyzes compliance information
- Develops internal and external partnerships to formulate and recommend compliance best practices to management
- Monitors and reports results of compliance monitoring efforts to management and to the Finance Committee
- Provides ongoing guidance to management on all matters relating to compliance

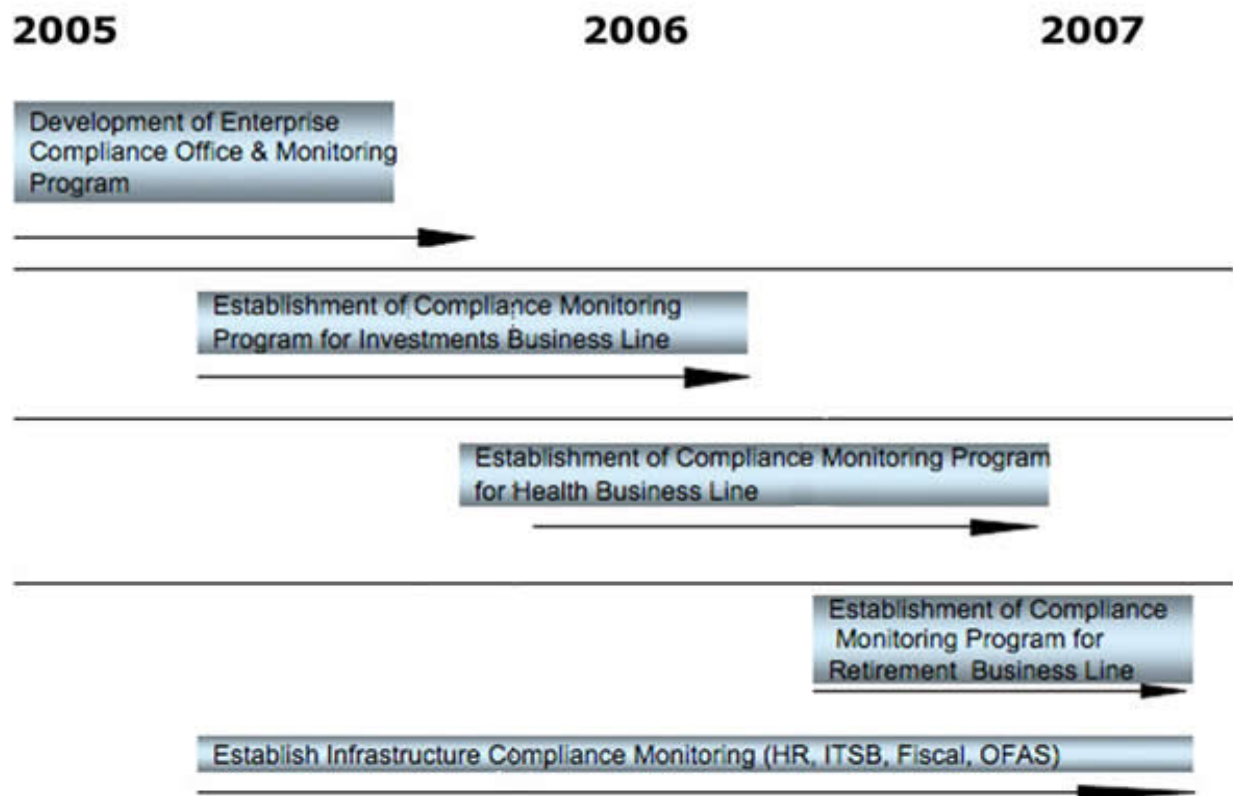
Towards the end of the 3rd quarter of 2007, the ECOM distributed their first customer service survey to the business lines at CalPERS. The purpose of the survey was to measure awareness of compliance activities, solicit organizational feedback, and review opportunities for improvement within the division. The survey was distributed to the management level and individual business-line employees that had prior experience working with the ECOM.

The 10 survey questions evaluated the ECOM's service-level accomplishments using a variety of measures, including timeliness of response, knowledge of subject matter, initiative demonstrated, and importance of the compliance function within the business lines. On average, 40 respondents provided responses to each question. Approximately 60% of survey respondents rated the ECOM's performance as "good" or "very good," and an additional 8% of respondents rated the ECOM's performance as "adequate." Of the remaining respondents, 2% rated the ECOM's performance as "poor" or "very poor," and 30% of responses indicated the questions were "not applicable" to their experience in working with the ECOM.

In general, the ECOM appears to be providing good service to those divisions with which it works most closely. In light of the 30% of respondents who said that the ECOM's activities were "not applicable," the ECOM recognizes there is need for further outreach on the importance of compliance. As a result of the survey, ECOM staff is exploring opportunities to enhance outreach and training efforts. As the ECOM continues to grow, it plans to reach out to other divisions on a more consistent basis and provide service to a broader range of employees within the various business lines.

Strategic Development

As illustrated below, the ECOM's maturity continuum shows a phased approach to program development. The compliance program is designed to include policies and procedures for assessing risk, monitoring compliance, recommending mitigation strategies, reporting events, and developing training programs.



In 2007, the ECOM completed the last phase of its initial implementation plan as outlined in the concept paper, with the establishment of a compliance monitoring program for the Pension Business Line. Going forward, ECOM staff will continue to:

- Identify areas of risk and assist program staff enterprise-wide in developing mitigation strategies
- Develop and improve existing compliance monitoring and oversight programs
- Develop training programs to improve staff awareness

To facilitate these activities, the ECOM plans to expand its existing program structure to include a new Enterprise CAM to monitor compliance within the internal support Divisions, and supporting analysts for each of the main business lines.

Key Ongoing Compliance Activities

- ❖ CalPERS performs an annual language survey, consistent with the requirements of Government Code sections 12940-12951. The survey is distributed to all staff to ensure CalPERS members and beneficiaries have equal access to public services, regardless of language fluency.
- ❖ The OSSD conducts Business Continuity Planning on an annual basis. As part of the Business Continuity Planning process, CalPERS maintains a detailed enterprise-wide plan to ensure business operations continue to function in the event of a disaster. Each division has the responsibility to ensure the division's functions are accurately described in the plan, maintained throughout the year, and updated annually. Consistent with best practices and state and federal guidelines, CalPERS Business Continuity Plan is reviewed annually and has Senior Management approval. The plan addresses data back-up and recovery, the performance of critical business functions, emergency communications with employees and members, and the activation of an Emergency Operations Center.
- ❖ The ISOF plays an important role in furthering compliance for CalPERS. The mission of the ISOF is to ensure the integrity, confidentiality, and availability of CalPERS information assets. The ISOF will accomplish this mission by protecting CalPERS information assets from misuse, loss, unauthorized disclosure, and unavailability. The ISOF addresses compliance for copyright law, information confidentiality, and information security incident reporting. The ISOF annually distributes the Information Systems Security & Confidentiality Acknowledgement (ISSCA) form and requirements for completing the ISSCA to all CalPERS staff. Completion of this form is monitored through the internal audit process.
- ❖ The OFAS completed the mandatory Financial Integrity and State Manager's Accountability Act (FISMA) review and submitted its report on the adequacy of internal controls to the Department of Finance by the December 31, 2007, deadline, in accordance with Government Code section 13405. The FISMA review addressed accounting and administrative controls over information technology and information security, cash receipts, cash disbursements, revolving funds, purchasing, receiving, cash disbursements, and personnel and payroll.
- ❖ In response to the recently issued Statements of Auditing Standards (SAS 104 – 111) from the Auditing Standards Board of the American Institute of Certified Public Accountants, the OFAS is assisting the FCSD to fulfill management's responsibilities in working with the external financial statement auditors under the new standards, specifically in the area of identifying and documenting internal controls over financial reporting.

Privacy Protection and Security Task Force

In October 2007, the CalPERS Executive Office (EXEO) established a Privacy Protection and Security Task Force (the "Task Force") to provide guidance and oversight related to the handling and usage of private and confidential data. The Task Force is chaired by the Deputy Executive Officer (DEO) for Operations, with Executive staff from each business line and support area within CalPERS being represented on the Task Force. The Task Force will function as a steering committee to approve policy and practices; share information; and provide guidance, input, and direction on privacy and security issues across the enterprise.

During the past decade, the issue of privacy and security of sensitive information has grown more complicated, due in large part to the expansion and growth of sophisticated computer systems and software upon which we rely daily to transact personal and business activities. This growth, combined with the explosion of the Internet, has exposed personal information to misuse, fraud, and abuse and has elevated the issue of privacy and security to the highest level of concern in our society. To enable CalPERS to maintain the trust of our members to safeguard their information, it will be the responsibility of the Task Force to ensure that privacy and security policies, practices, procedures and standards are established, maintained, and/or improved in accordance with best practices and industry standards in the financial, health, pension and government arenas.

The primary objectives of the Task Force are to facilitate and ensure: (1) Greater communication, on a regular basis, throughout the enterprise on privacy and security issues; (2) Greater awareness on the part of all employees on how they should protect sensitive and confidential information; (3) Establishment of best practices information related to privacy and security issues from financial, health, and governmental entities; and (4) Establishment and integration of a culture in CalPERS that strives to constantly improve its privacy and security policies, practices, and standards for the benefit of members, employees, and employers.

As a first step towards achieving those objectives, the Task Force met during the later part of October 2007 and developed an Enterprise Security and Privacy Protection Action Plan that included some twenty action items in five major categories: (1) Requirements and Best Practices; (2) Electronic Storage, Access, and Transfer; (3) Incoming Data; (4) Employee Privacy Issues; and (5) Physical Security. As of January 1, 2008, approximately 10 of the 20 items have been completed. Of the remaining 10 action items still in progress, special consideration is being given to determining the potential of using a unique identifier in place of Social Security number for most external communications.

At the same time, the Public Affairs Office (PAOF) has increased their ongoing awareness campaigns by initiating staff outreach and engagement activities to increase internal awareness of the importance of safeguarding sensitive information and data privacy. Employee newsletter articles and the monthly CEO communication, *Fred on First*, are addressing this issue on a regular basis. In January 2008, the PAOF introduced campaign posters throughout the organization to help promote general awareness of our information privacy and protection policies, with a consistent message of pride in our service and protecting our customers' information. The poster campaign message is "They Trust You."

Initial response indicates that these posters are resonating well with CalPERS employees and are serving as a reminder to protect sensitive information from leaving the organization.

In addition to the action plan and awareness activities, the Task Force in November 2007, approved an Enterprise Privacy and Security Assessment of all CalPERS operations, and competitively acquired the services of a consulting firm that specialized in Security and Privacy, to conduct the Assessment. They began work on December 5, 2007, with the following activities to be completed no later than March 31, 2008: (1) Interview and a review all CalPERS existing security and confidentiality documentation; (2) Review and document all current best practices and standards related to security and confidentiality; (3) Conduct a gap analysis contrasting best practices with findings of current CalPERS practices; (4) Develop draft report of recommendations and corrective actions; (5) Develop a comprehensive Internal and External Communication Plan; (6) Develop a comprehensive Training Plan; and (7) Complete a comprehensive Final Report and Corrective Action Implementation Plan

The final report and corrective action plan, including findings and recommendations, after review by the Executive staff will be presented to the Board. It is anticipated that implementation, monitoring, and management of the Assessment recommendations will be integrated into the current CalPERS processes and organizations and overseen by the Task Force and/or other committee structures.

Internal Communications, Education and Training

As required in the United States Federal Sentencing Guidelines, the ECOM's Compliance program includes a training component to ensure that employees are aware of their legal and ethical responsibility to be compliant with applicable laws and rules for each business line. CalPERS demonstrates a commitment to compliance by joining with business lines to communicate compliance standards and procedures to all employees, and to inform employees on compliance issues. The following training was provided in 2007:

Ethics Training

This course was developed based on recommendations in the joint report titled "Assessment of CalPERS Ethical Culture," released by the LEGO and the OFAS in November 2001. To comply with the recommendations of this report and in an ongoing effort to maintain and promote an ethical culture, CalPERS General Counsel and Legal staff conducted ethics training for our Investment Office (INVO) staff, designated key staff, and Board Members. Although current CalPERS ethics training exceeds the minimum requirements of the Political Reform Act, it is a best practice to make ethics awareness training broadly available to all employees. As of January 1, 2008, 247 of the 402 designated employees had completed the required ethics training. An additional 26 designated employees are new hires within the six-month grace period for completion of this training requirement. Designated employees who have not yet met this requirement will be given the opportunity to take this class in February and March, 2008. Additionally, CalPERS has established online ethics training, which satisfies this requirement and provides

employees with the opportunity to refresh their knowledge of the organization's ethical framework on an as-needed basis.

Enterprise Compliance Training

The United States Sentencing Guidelines emphasize that an organization should take reasonable steps to communicate, periodically and in a practical manner, its standards, procedures, and aspects of its compliance program. The ECOM's efforts to train staff on the importance of compliance are continuous and can be seen in various multimedia and physical locations. Training is available on the ECOM and LEGO Web pages, via videoconference, and on-site in Sacramento and the Regional Offices. Publications provided in the training are also available to staff upon request. It should be noted that the training content and material is viewed as a "best practice" and has been provided to external agencies such as CalSTRS, the California Earthquake Authority, the Association of Governmental Accountants, the Institute of Internal Auditors, the Association of Public Pension Fund Auditors, the Association of College and University Auditors, and the Public Pension Financial Forum.

2006 Working Values

The training content for the course titled "*CalPERS Working Values*" was created in response to a joint report prepared by the LEGO and the OFAS entitled, *Assessment of CalPERS Ethical Culture*. The ECOM created the course content, materials, and publications based on the report's recommendations. This year, the ECOM revised the handbook and course materials for the class, which will be held in 2008. The new versions will include the CalPERS privacy and attendance and leave policies. The effectiveness of the 2007 class was evaluated using feedback received from participants' comments after attending the course. The surveys disclosed that participants placed a high value on the content, presentation style, and course materials which included the employee conduct -- related policy handbook, a quick reference gift and ethics wallet card, and a certificate of course completion. Each employee that attends the Working Values course will have their attendance and completion recorded on their individual training record.

AB 1825 Sexual Harassment Prevention Training

In 2007, the HRSD and the CDOP delivered the 2007 Sexual Harassment Prevention (SHP) training to Managers, Supervisors, Board Members, and Official Representatives. This training fulfills mandates set by AB 1825 (Stats. 2004, Ch. 933) regarding Sexual Harassment Prevention and the Federal United States Sentencing Guidelines. It should be noted that in 2007 the California Fair Employment and Housing Commission (FEHC) adopted regulations that further defined the AB 1825 language. Beginning in 2005, all existing supervisory employees, Board Members, and Official Representatives were required to receive a minimum of two hours of SHP training every two years; CalPERS goes beyond the FEHC regulations and requires all of its managers and supervisors to take the training. All newly appointed supervisors must receive AB 1825 compliant training within six months of their appointment dates. The training for the new supervisors is included in the L.E.A.D.E.R. course. A total of 385 CalPERS supervisors and managers completed the mandatory AB 1825 Sexual Harassment Prevention Training course in 2007.

Information Security Awareness Training

Beginning July 1, 2007, the ISOF began rolling out mandatory online training for all employees, to educate them on their roles and responsibilities in protecting CalPERS information assets from misuse, loss, unauthorized disclosure, and unavailability. ISOF's awareness program includes security tips and alerts throughout the year and presentations to new employees during each new employee orientation session. To date, 684 employees have completed the Information Security Awareness training.

New Employee Orientation

CalPERS provides a two-day New Employee Orientation (NEO) session that provides staff with an overview of the State and its responsibilities, employee benefits, employee rights and responsibilities, and an introduction to the CalPERS organization and culture. Classes are scheduled based on demand. Beginning in July 2007, classes were offered monthly. A total of 274 employees completed the NEO course in 2007.

New Supervisor Training

CalPERS provides a leadership development series that includes: L.E.A.D.E.R. (56 hours) Maximum Results (40 hours), and Lead By Example (56 hours). In addition, CalPERS offers a four-hour New Manager/Supervisor Orientation to provide essential information to managers prior to enrollment in the L.E.A.D.E.R. training. Newly appointed CalPERS managers and supervisors must take a minimum of two classes within the Leadership Series to meet the requirements of Government Code section 19995.4 that states each newly appointed supervisor must receive 80 hours of training, within 12 months of the appointment date, to be successful in their new roles. A total of 171 managers and supervisors participated in the Leadership Series training in 2007.

ECOM Web Page on the *Insider*

With CalPERS internal Web-based communications campaigns such as *Be Informed, Be Involved* attracting greater attention to the employee intranet (the *Insider*), the ECOM utilizes the website to raise compliance awareness and facilitate education. The ECOM website also hosts a calendar of compliance-related events such as training, frequently asked questions, and articles on best practices in compliance. The 2007 ECOM survey results are also posted on our website.

Mandatory Training Matrix

The HRSD developed a chart that lists the mandatory employee training requirements along with relevant laws, rules, processes and assigned ownership (see Appendix B). The HRSD's website on the CalPERS Insider provides links to applicable employee training policies.

The HRSD reports on the status of several mandatory training classes. Those not tracked by the HRSD are administered and reported on by the program area owner as indicated on the Mandatory Training Matrix.

External Communications

The Finance Committee directed the CCO Sherry Johnstone, to continue efforts to communicate and network with other state pension plans and provide examples of “best practices” to be shared.

Council of Compliance Officers

In 2007, ECOM staff and CalPERS hosted the first Council of Compliance Officers conference in Sacramento, California. Over three days, special presentations were provided by industry experts on compliance-related topics of interest.

The conference keynote speaker was Dennis Johnson, CalPERS Senior Portfolio Manager of Global Corporate Governance. Mr. Johnson provided insight on CalPERS Corporate Governance Program, Global Active Investment Strategies, Global Policy, and Global Proxy Voting. He also discussed divestment in Sudan and Iran, summarized a recent Council for Institutional Investors meeting, and highlighted recent decisions of the Securities and Exchange Commission (SEC) and Congress.

The final presentation provided attendees with a compliance officer toolkit and workshop including an in-depth skills analysis of successful professionals in the industry. In addition to formal presentations, a series of round-table discussions were conducted with topics covering personal trade policies, insider trading, state pension legislation, freedom of information, and error correction policies. Representatives were present from Arizona, Maryland, New Hampshire, Ohio, Pennsylvania, Washington, West Virginia and Ontario, Canada. Representatives from other California state agencies also attended.

The inaugural conference was well-received by all participants and attendees. Post-conference survey results rated each of the presenters as “very knowledgeable”, and their sessions were considered informative. Response and interest continues to grow, and additional compliance groups have expressed interest. Seventy-five percent of conference attendees rated the corporate governance presentation as “highly valuable”. Attendees recognized CalPERS staff for a successful and productive conference.

Public Pension Financial Forum (P2F2)

In October 2007, CCO Sherry Johnstone, represented CalPERS on a panel at the P2F2 conference in Seattle, Washington.

The P2F2 conference is designed to impart education and information that will add value and assist public pension leaders in administering public pension funds. Recognized as a leader in the compliance field, Ms. Johnstone was invited to participate on a panel titled “Internal Investment Compliance.” As a public pension fund representative, she discussed high risk areas and controls put in place to monitor and report on Investment risks. She also described the “CalPERS Journey to Creating an Effective Compliance Program.”

P2F2 Investment Compliance Panel speakers received high praise from participants. As a result of the CalPERS CCO’s participation in the conference, the future Annual P2F2

conferences will feature an educational compliance track of presentations and information related to Investment Compliance.

Association of Public Pension Fund Auditors (APPFA)

In May 2007, CCO Sherry Johnstone, and Mark Bullen, the Investment CAM, participated on a panel at the Spring meeting of the APPFA in New Hampshire. CalPERS staff joined with compliance personnel from the State of Wisconsin Investment Board to facilitate and present on Investment Derivatives and External Manager Oversight. The presentation covered derivatives and their importance in the pension fund world. Discussion also included a comparison between derivative and cash markets.

Annual Conference of the Association of College and University Auditors (ACUA)

CCO Sherry Johnstone was featured at the 51st Annual Conference of the ACUA in Atlanta, Georgia. ACUA is an international professional organization serving institutions of higher education across the globe. Since its establishment in 1958, ACUA has provided its members a collegial forum for exchanging and sharing knowledge, and generating new ideas. ACUA is committed to increasing members' knowledge of auditing, regulatory compliance and risk management in higher education.

Ms. Johnstone presented "*How to Mitigate your Organization's Risk Through a Partnership Between Internal Audit and Compliance*" to the ACUA membership. Over a hundred members were in attendance at the session, representing college and university auditors from around the world.

The presentation discussed organizations that are considering implementing a compliance monitoring function. The presentation also discussed the differences between the internal audit role and the compliance role, and answered the question of who really has responsibility for compliance in an organization. Ms. Johnstone shared highlights and challenges of implementing an enterprise-wide approach to compliance monitoring at CalPERS. She discussed steps to implementing an effective program, and obstacles and successes experienced along the way. Conference participants also received information on how to mitigate risk through risk assessment, planned audit activities, and daily compliance operations.

The Year in Review

Office of Enterprise Compliance Accomplishments

At the end of 2007, I am proud to take a look back at the Year in Review and our accomplishments for the compliance program.

The Office of Enterprise Compliance was a hub of activity this year. December 2007 marks our third year of operations for CalPERS and completes our final phase of implementation as outlined in our original concept paper. The original concept paper described a three year implementation to build the compliance program in accordance with “best practices.” In three short years, we have grown to our current staffing level of six full-time professional staff working to either support the Chief Compliance Officer or the Compliance Area Managers in the key business lines of Investments, Health and Pension.

This year as our program is growing and maturing, we have added staff, hosted our first Council of Compliance Officers meeting, conducted our first enterprise-wide risk assessment and published our Annual Report for external distribution.

Although we certainly have been working diligently on building and expanding our internal program, the Office of Enterprise Compliance has also continued its effort to demonstrate CalPERS leadership on a national and international basis for compliance programs in other public pension systems.

The Chief Compliance Officer conducted education and outreach to the Association of Public Pension Fund Auditors, the Public Pension Financial Forum and to the International Association of College and University Auditors. This continued interest from various governmental bodies demonstrates a renewed commitment and concern to protect public pension system assets and to model best practices in our fiduciary role and responsibility.



At the close of 2007, CalPERS marked its 75th Anniversary and said goodbye to one of its long-time trustees, Mr. Robert Carlson, who served as the Chair of the Finance Committee and as a CalPERS Board Member for 37 years. Mr. Carlson has been a strong voice and a visionary in many legacy efforts in California. The CalPERS Compliance Program stands today as yet another testimony to his dedication, vision and heart.

Sherry Johnstone
Chief Compliance Officer

Investment Business Line Compliance Accomplishments

In 2007, the Investment Business Line completed a significant compliance project in the proxy voting area. In addition to fulfilling the ECOM recommendations, Corporate Governance staff should be commended for implementing a best practice that eliminates paper and provides systematic voting. Highlights of the new system include:



- Enhances management reporting tools, so that votes may be viewed by issue
- Adds a greater level of internal control, by ensuring all CalPERS votes are consistent with policy
- Provides a cost effective and efficient approach, which reduces staff time involved in a previously labor intensive process.

Corporate Governance staff posted to the Shareowner Forum on *CalPERS On-Line* a complete summary of the fiscal year 2006-07 CalPERS proxy voting record. Going forward, Corporate Governance staff will be posting future proxy voting record summaries to the Shareowner Forum on *CalPERS On-Line* no later than August 30 following the applicable fiscal year.

Compliance Systems and Documentation:

- ❖ Global Fixed Income staff developed and implemented an automated process for compliance with the ISOF's User Account Practice requiring deletion of inactive accounts on CalPERS systems.
- ❖ Corporate Governance staff provided an overview and training on the new automated proxy voting platform to CalPERS Compliance staff. The Investment CAM was issued a user identification and password to enable independent system access and monitoring. Corporate Governance staff provided the CCO with an updated Global Proxy Voting and Corporate Governance Principles Reference Manual.
- ❖ ECOM staff participated in the automated proxy voting platform vendor presentations to Corporate Governance staff during third quarter.
- ❖ The ECOM developed and received approval for a Personal Trading Policy to be implemented in the second quarter of 2008.

- ❖ The Investment CAM conducted research on the Texas State Retirement System and the Washington State Investment Board regarding automated proxy voting platforms and reported best practices to Corporate Governance staff during third quarter.
- ❖ The Investment CAM gave a presentation to the APPFA with regard to derivatives and a second presentation to the Council of Compliance Officers regarding the Global Equity trading platform.
- ❖ The ECOM and the LEGO participated in the Investment Office Policy Consolidation Project, completing the review of policies for Global Equity, Global Fixed Income and Asset Allocation and Risk Management.
- ❖ Securities Lending staff completed development and implementation of an enhanced online compliance monitoring system for cash reinvestment.
- ❖ The INVO and the FCSD implemented quarterly financial reporting of the Supplemental Income Program funds.
- ❖ The INVO and the FCSD continued to work on third party payment procedures to enhance internal controls, management oversight, and process efficiencies. Existing efforts to cross-train staff were also expanded.
- ❖ The CalPERS Member Home Loan Program (MHLP) expanded compliance efforts and oversight activities through the use of annual compliance checklists, requirements for annual reporting regarding internal controls for accounting and managerial operations of the program, and the separation of duties among CalPERS staff to define program operations and compliance areas of responsibility.
- ❖ The INVO, in partnership with the HBB, the ERSD and the CORE, established the California Employers' Retiree Benefits Trust (CERBT), to assist CalPERS employers in meeting their pre-funding obligations under Government Accounting Standards Board (GASB) statement 45.
- ❖ The MHLP developed an annual Compliance Checklist based on the current MHLP Request for Proposal and contract. They also developed a process for program oversight based on this checklist to be performed by staff independent of the MHLP.
- ❖ The MHLP began establishing the separation of duties among CalPERS staff to define distinct areas of responsibility for program operation and compliance.

Ongoing Compliance and Monitoring:

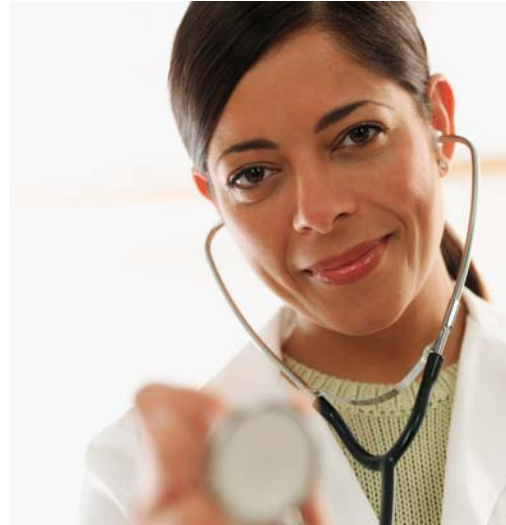
- ❖ The ECOM established, recruited and filled a business line analyst position to provide administrative support critical to compliance monitoring of the Investment Business Line.
- ❖ The ECOM continues to update the Procedure Compliance Manual for the Investment CAM.
- ❖ The ECOM continues to monitor and report Fixed Income and Global Equity compliance activity.
- ❖ The ECOM staff continues periodic follow-up review of prior compliance-related recommendations for Alternative Investment Management (AIM).
- ❖ The INVO and ECOM conducted a follow-up review of the proxy voting recommendations that will be implemented by the automated proxy voting platform.
- ❖ The AIM group conducted a follow-up review of prior compliance-related recommendations.
- ❖ MHLP staff reviewed the 2006 SAS-70 report prepared by MHLP manager CitiMortgage, analyzing the effectiveness of the program manager's internal controls over its accounting functions and managerial operation of the MHLP.

Legislation

- ❖ The Governmental Affairs Office (GOVA) and INVO developed Federal Legislative and Regulatory Investment Policy Guidelines, which were adopted by the Board.

Health Business Line Compliance Accomplishments

In 2007, the Health Business Line worked to further develop existing compliance documentation and compliance monitoring systems. The Health Business Line achieved several compliance goals related to staff training and the resolution of audit report findings. The GOVA and the Health Benefits Branch (HBB) also obtained legislative changes to provide staff with clear authority to: (a) engage in expanded health plan oversight and compliance activities, and (b) improve the consistency of program administration for State and Contracting Agency members.



Compliance Systems and Documentation:

- ❖ The HBB, in partnership with ECOM, documented an inventory of HBB compliance activities.
- ❖ The HBB and the ECOM continue to identify applicable laws, rules, regulations, and policies that apply to the Health Business Line, toward the development of a comprehensive Health Regulatory Matrix/Governance Framework.
- ❖ The HBB developed an Internal Business Operations Manual that provides an overview of HBB Units, roles and responsibilities, core activities, and applicable laws, rules, regulations, and policies.
- ❖ The HBB and the OFAS worked with business lines enterprise-wide to mitigate or resolve audit findings identified in the HIPAA Privacy and HIPAA Security Compliance Reviews.
- ❖ The HBB resolved 13 internal audit findings.

Ongoing Compliance and Monitoring

- ❖ The Health CAM continues to conduct research regarding best practices in Health compliance.
- ❖ HBB staff and ECOM staff continue to review existing policies and procedures.

- ❖ The HBB continues to develop policies and procedures to comply with Medicare Part D requirements.

Training and Outreach

- ❖ The ECOM continues to provide compliance and ethics training to HBB staff.

Legislation

- ❖ The Board sponsored AB 554 (Stats. 2007, Ch. 318), which provides all public employers with the option to participate in the CERBT administered by CalPERS. The need for this legislation was identified by staff in the GOVA, the HBB, and the INVO.
- ❖ The Board sponsored AB 1296 (Stats. 2007, Ch. 698), which increases CalPERS health plan transparency related to provider contracts. The need for this legislation was identified by staff in the HBB.
- ❖ The GOVA and the HBB developed state and federal Health Policy legislative priorities, which were adopted by the Board.

Pension Business Line Compliance Accomplishments

In 2007, significant progress was made in the Pension Business Line. Staff in the Member and Benefit Services Branch (MBSB) and the Actuarial and Employer Services Branch (AESB) improved their compliance systems and procedural documentation. MBSB and AESB staff worked to resolve several outstanding compliance issues and provided training and information to a variety of audiences, including CalPERS and Contracting Agency staff. These staff also implemented several new pension-related laws.



Compliance Systems and Documentation

- ❖ The ECOM continued to monitor pension compliance and mitigation control.
- ❖ The ECOM reviewed previous pension-related audit reports and findings.
- ❖ The ECOM provided compliance-related information sharing to other compliance professionals throughout the country.
- ❖ The Pension CAM identified Web-based research tools in support of compliance monitoring.
- ❖ MBSB and AESB staff, in partnership with the ECOM, continue to develop a Pension and Retirement Regulatory Matrix and Governance Framework.
- ❖ The ECOM assisted AESB staff in developing procedures for CalPERS-initiated employer contract terminations due to failure to provide contributions and required information.
- ❖ The ECOM, MBSD, Benefit Services Division (BNSD) and ERSD collaboratively created monitoring and reporting tools for pension and retirement compliance for the Benefits and Program Administration Committee.
- ❖ The MBSD began developing a Delegation of Authority and Decision-Making Guide for internal management.
- ❖ The MBSD established the “Policy, Procedures and Training Unit” to coordinate compliance-related activities.
- ❖ The MBSD developed service level agreements for the customer service inquiry process.

- ❖ The MBSB's Disability Retirement staff documented procedures for their Quality Assurance Program.
- ❖ The ERSD established a "Policy Procedure and Compliance Unit" to coordinate compliance-related activities.
- ❖ The Employer Contact Center (ERCC) implemented a new Quality Assurance Program.
- ❖ The ERSD and the CORE implemented a plan to address Charter School membership and payroll reporting issues, in partnership with CalSTRS, the Department of Education, and the County Offices of Education.
- ❖ The ERSD and the CORE served as the Social Security Administrator on behalf of CA State and Public Agency employers and employees.
- ❖ The ERSD and the CORE worked with employers to address and resolve public agency review findings.
- ❖ The ERSD and the CORE made continued improvements to the public agency review findings resolution process.
- ❖ The ERSD and the CORE reviewed and analyzed ambiguous areas of law, and created a plan to address issues through legislative action or regulatory changes.
- ❖ The ERSD and the CORE drafted procedures to ensure appropriate handling of employer non-compliance issues.

Ongoing Compliance and Monitoring

- ❖ The Pension CAM continues to monitor pension-related regulations, laws, and rules and research best practices in Pension compliance.
- ❖ The ECOM will continue to review pension-related audit reports and findings and monitor program area resolution of findings.
- ❖ The ECOM continues to monitor and assist with the implementation of enacted legislation, such as the provisions of AB 2244(Stats. 2006, Ch. 118) and the Federal Pension Protection Act of 2006.
- ❖ AESB staff will continue to review and identify areas of the law that are ambiguous and determine a plan for addressing issues requiring legislative action or changes through the regulatory process.
- ❖ The ERSD and the CORE continue to document and centrally maintain procedures.

- ❖ The OFAS increased the annual number of Contracting Agency compliance program reviews from 47 to 53. These reviews include contracting public agencies, schools, district agricultural associations, state agencies, and California State Universities and assess compliance with the California Government Code and California Code of Regulations.

Training and Outreach

- ❖ The ECOM presented compliance training to staff within the Pension Business Line.
- ❖ The ECOM staff attended pension and retirement compliance workshops and conferences, to gain access to “best practices” and pension compliance tools.
- ❖ The BNSD enhanced its existing training programs to establish, update and publish procedures to a central repository, develop new reference manuals documenting processes, and increase workload training opportunities.
- ❖ The MBSD implemented the Service Credit Foundation (SCF) training class in June 2007.
- ❖ The MBSD piloted functional training on Additional Retirement Service Credit (ARSC) for Service Management Section staff.
- ❖ The ERSD will continue implementing its Staff Training Plan delivering Division-specific and job-specific training to its employees.
- ❖ The ERSD and the CORE began developing online employer training modules for inclusion in the CalPERS Education Center.

Legislation

- ❖ The Board sponsored AB 1307 (Stats. 2007, Ch. 511), which expands eligibility to participate in the Supplemental Contribution Program to public agencies, and allows for permissible in-service distributions of employee contributions. The need for this bill was identified by the GOVA and the Supplemental Income Plans Division of the INVO.
- ❖ The MBSB implemented the provisions of AB 2244 (Stats. 2006, Ch. 118), which redefined the definition of disability retirement (reversing the Nolan Decision) effective January 1, 2007, and changed the age of participation in the Partial Service Retirement Program to ensure compliance with federal laws, rules and regulations.

- ❖ The MBSB implemented relevant provisions of the Federal Pension Protection Act of 2006 (HR 4), which was enacted on August 17, 2006.
- ❖ The ERSD and the CORE implemented the State MOUs.
- ❖ The ERSD and the CORE implemented AB 2438 (Stats. 2006, Ch. 121) changing the standards for Treatment of Pay for Industrial Disability Leave.
- ❖ The ERSD and the CORE implemented AB 2351 (Stats. 2006, Ch. 355) changing the standards for Service Credit for Elected Officials
- ❖ The ERSD and CORE continued to implement SB 1105 (Stats. 2004, Ch. 214) changing the standards for the Alternate Retirement Program.

Governmental Accounting Standards

- ❖ The OFAS monitored and provided advice to CalPERS management regarding the impact of GASB Statement No. 50, Pension Disclosures, which more closely aligns current pension disclosure requirements for governments with those for retiree health insurance and other post-employment benefits.

Enterprise Business Line

Compliance Accomplishments

In 2007, extensive strides were made in several areas with regard to the Enterprise Business Line. Staff in the ITSB, ISOF, FCSD, HRSD, and OSSD undertook a broad range of efforts aimed at documenting procedures and improving compliance monitoring systems. Program areas throughout the organization established a variety of new safeguards to better protect member and employee Social Security numbers and other private information. Staff also engaged in a variety of training and outreach efforts.

Compliance Systems and Documentation

- ❖ The Board created the position of Diversity Officer over External Affairs, to focus on diversity efforts with external partnerships.
- ❖ The Board approved the Audit Plan for Fiscal Year 2007-08. The Audit Plan was developed and proposed by the OFAS.
- ❖ The ECOM researched related regulations, laws, and rules for Enterprise compliance.
- ❖ ECOM staff attended enterprise-related compliance workshops and conferences, to gain access to “best practices” and compliance tools related to the Enterprise Business Line.
- ❖ The ECOM continued to work with staff in internal support Divisions to develop an Enterprise Regulatory Matrix.
- ❖ The ECOM continued to review existing policies for compliance with applicable laws and rules for the Enterprise Business Line.
- ❖ The ECOM initiated the development of a professional Chief Compliance Officer Association, which provides a forum for the exchange of compliance issues and “best practices” for public pension systems.
- ❖ The ECOM, in partnership with the OFAS and CalPERS primary business lines, completed an enterprise-wide compliance risk assessment of policies, rules, and regulations, to determine compliance exposures and impact to CalPERS of non-compliance.
- ❖ The CDOP issued the updated Zero Tolerance Sexual Harassment Prevention Policy, which reflects regulatory changes made in relation to AB 1825 (Stats. 2004, Ch. 933).

- ❖ The ISOF has ensured that procedures for testing backup copies of imaged documents have been established and implemented.
- ❖ The OSSD established written procedures for allowing access to the Emergency Operation Center in the event of an emergency.
- ❖ CalPERS independent financial statement auditor completed the Financial Statement Audit in June 2007. The Board approved the basic financial statements on November 15, 2007, and a Management Letter was prepared in connection with the audit.

Privacy Protection

- ❖ CalPERS established an inter-divisional Privacy Protection and Security Task Force which will provide guidance and oversight when it comes to handling and using confidential data.
- ❖ The Web Communications Unit worked closely with the ISOF, the ITSB Security Administration Section, and external security consultants, to ensure member information transmitted via my|CalPERS is protected and secure.
- ❖ The FCSD issued a memorandum to all CalPERS staff informing them that personal Social Security numbers are not required on employee travel expense claims or when requesting a travel advance. For added protection of staff Social Security numbers, this policy has been expanded to all request and reimbursement forms submitted to FCSD.
- ❖ The FCSD established an “Internal Control and Documentation Unit.”
- ❖ The HRSD instituted the practice of processing employee attendance documents without Social Security numbers.
- ❖ The OSSD submitted the updated CalPERS Continuity of Operations and Continuity of Government plan to the State and Consumer Services Agency, including updates addressing Social Security number security measures.
- ❖ The OSSD implemented policies and procedures for authorizing physical access to CalPERS Lincoln Plaza Complex, including revising the internal badge security access card form.
- ❖ The OSSD established new written procedures for access validation for Lincoln Plaza Complex, including the Data Center, and the Emergency Operations Center.

- ❖ The ISOF improved documentation of the termination of logical access to Electronic Protected Health Information within the Document Management System.
- ❖ The ISOF implemented mandatory information security and privacy protection training for all staff during 2007. This annual training program was implemented using web-based technology, allowing staff to take the training at their desktops. The purpose of the training is to ensure staff know how to protect information from unauthorized access and disclosure. It addresses appropriate use of technology and information, how to recognize and report possible breaches of security and privacy protocols, and what to do if a breach occurs.
- ❖ The ISOF implemented a process to ensure confidentiality statements are on file for all on-site consultants and for any transfer of data outside of the department. The ISOF initiated a procedure to ensure transfers of data files outside of the department are done only after authorization and approval by the programs responsible for that data.
- ❖ The ISOF initiated the Risk Assessment and Management Program (RAMP) to identify risks to CalPERS information assets and recommend cost effective remediation. RAMP assesses the use of technology and management of information throughout the department. The intent of RAMP is to identify and remediate risks before incidents and breaches of security and privacy protocols occur.
- ❖ The Customer Contact Center (CCCC) implemented enhanced customer identity verification procedures.

Ongoing Compliance and Monitoring

- ❖ The ECOM reviewed previous audit reports of internal support Divisions that support the Enterprise Business Line.
- ❖ The CDOP completed its Bilingual Implementation Improvement Plan, consistent with the requirements of the Dymally-Allatorre Bilingual Services Act. As of 2007, CalPERS has certified 10 bilingual employees.
- ❖ The CDOP published the *CalPERS Commitment to Diversity: A Report to Assembly Budget Subcommittee 2006-2007*, which reported on diversity in Investments and on the CDOP's internal activities and External Affairs.
- ❖ The CDOP completed the Annual Workforce Analysis Report and submitted it to the State Personnel Board (SPB) as required.
- ❖ The OSSD provided training to divisional representatives to ensure users' rights of building access are properly established and modified when necessary.

- ❖ The CalPERS Business Connection completed the Annual and Mid-Year Small Business (SB) and Disabled Veteran Business Enterprise (DVBE) Contract Participation Reports and submitted them to the Department of General Services (DGS), as required by Public Contract Code section 10111. CalPERS reported a SB participation goal of 14.87 percent, an increase of nearly two percentage points over last year's participation goal.

Training and Outreach

- ❖ The ECOM established a Compliance Resource Library with topic-specific resources.
- ❖ The ECOM enhanced CalPERS online training tools, to reinforce compliance education and awareness.
- ❖ The ECOM continued to provide training and information to improve staff awareness of the compliance program.
- ❖ CalPERS program areas enterprise-wide issued circular letters and Employer eBulletins, advising employers of policy or procedural changes and/or information relating to retirement, benefits and related issues.
- ❖ CalPERS staff enterprise-wide issued compliance bulletins on an as-needed basis, regarding new compliance-related developments that need to be communicated to affected employees, including compliance bulletins regarding the October 2007 ECOM Internal Employee Survey, and compliance articles in *InCalPERS* (the CalPERS employee newsletter) and *PERSpective*.
- ❖ The Web Communications Unit worked with staff enterprise-wide to launch my|CalPERS, a personalized, centralized and secure website for members to conduct all their business with CalPERS. The launch of my|CalPERS was a significant milestone in achieving CalPERS vision of becoming a fully-integrated provider of financial and health-related services.
- ❖ The Web Communications Unit enhanced my|CalPERS with the addition of a secure self-service option that allowed retirees to change their health plans online during Health Open Enrollment Period.
- ❖ The Web Communications Unit enhanced my|CalPERS with the ability for active members to receive their current and past Annual Member Statements online, as well as to opt out of receiving their future Annual Member Statements by mail.
- ❖ The CDOP consulted on and assisted with the delivery of SHP training for supervisors and managers (including Board Members), pursuant to AB 1825 (Stats. 2004, Ch. 933).

- ❖ The CDOP presented the Equal Employment Opportunity (EEO) module in the NEO and New Manager/Supervisor Orientation.
- ❖ The CDOP participated in the 2007 CalPERS Human Resources Forum for supervisors and managers. Internal diversity initiatives and CDOP responsibilities were presented to more than 200 CalPERS supervisors and managers.
- ❖ The Diversity Outreach Committee conducted the annual Disability Awareness Day. This event is an opportunity for staff to interact with community-based organizations.
- ❖ The Diversity Outreach Committee held the “A Journey through DiverCity” event, which celebrated the diversity of our workforce and community. Participation in this event in 2007 was double the attendance achieved in previous years.
- ❖ The CBC installed a link to CalPERS Business Connection web pages on CalPERS On-line.
- ❖ The CBC conducted a statewide direct mailing to approximately 450 local economic development centers, Veterans Affairs offices, and Chambers of Commerce.
- ❖ The CBC, in partnership with the PAOF, developed a new marketing brochure for external outreach.
- ❖ The CBC worked to promote the CBC and CalPERS SB and DVBE participation goals, through articles in *InCalPERS* and on the CalPERS *Insider* internal webpage.
- ❖ The CBC participated in nine outreach events, reaching thousands of SB and DVBE representatives.
- ❖ CBC staff attended four Governor's Collaboration Conferences throughout the State.
- ❖ The HRSD informed CalPERS Division Chiefs of CalPERS compliance obligations in relation to its First Aid/CPR Training Program and the required availability of first aid supplies in the workplace.
- ❖ The GOVA met with new, incoming legislators and the current year staff assigned to key CalPERS legislative committees. During these “meet and greets” staff provide a report to the legislator outlining the economic picture of CalPERS benefits within their district. These meetings helped to educate the Legislature and to enhance the overall awareness of CalPERS operations and its contributions to the community at large.

- ❖ The GOVA and the PAOF coordinated and participated in a pilot program to brief legislators on the economic data that demonstrates how CalPERS regularly invests in the cities and counties that each legislator represents. The GOVA also developed a CalPERS Connects Resource Guide to assist Members' offices in directing their constituents to CalPERS services.
- ❖ The MBSD reached an additional 15,000 members through retirement workshops and retirement planning seminars, when compared with attendance figures from the 2005/06 fiscal year.
- ❖ The MBSD certified trainers through the Training Certification program at California State University, Sacramento.
- ❖ The MBSD established an improved employer education workshop on Disability Retirement.
- ❖ The CSED continued to provide staff with program updates via the Contact Center News Network (CCNN).
- ❖ The ERSD and the CORE developed the CalPERS Education Center (CEC), to improve the accessibility of procedures and training materials for employers.
- ❖ The ERSD and the CORE informed representatives of more than 400 cities, counties, and special districts about the CERBT and their GASB 45 reporting responsibilities. The ERSD and the CORE launched a similar outreach effort to schools.
- ❖ The ERSD and the CORE continued to provide staff with on-demand access to procedures and guidelines via the CalPERS Knowledge Management System.
- ❖ The ERSD and the CORE distributed over 30,000 copies of the CalPERS Employer News educational newsletter.
- ❖ The ERSD and the CORE formed a Pension System Resumption (PSR) Employer Advisory Group, to build awareness and support of the new pension and health technology system, which is under development for deployment in late 2009.

Legislation

- ❖ The Board sponsored AB 1317 (Stats. 2007, Ch. 333), which adds “General Counsel” to the list of positions under which the Board has authority to set compensation, terms, and conditions of employment.
- ❖ The GOVA analyzed and monitored hundreds of bills and proposals, and worked with staff and other stakeholders to establish legislative positions and proposals based on the Board’s legislative policy standards.

The Year Ahead

Office of Enterprise Compliance Goals for 2008

It is 2008, and most people have thought about their accomplishments during the last year and their plans for the New Year. The Office of Enterprise Compliance has been actively reviewing our activities for 2007 and our accomplishments. Like most people we had planned some goals for 2007 that will either continue or be completed in 2008.



The Office of Enterprise Compliance has made many commitments for 2008. Although we are currently fully staffed, the Office of Enterprise Compliance has identified an additional workload for a compliance area manager for a new business line and plans to request approval to create and fill that position.

Activities that will continue in 2008 and should be highlighted are the ongoing enterprise-wide risk assessment and the implementation of a personal trading policy.

The Office of Enterprise Compliance plans to continue our efforts in building and further developing our compliance area monitoring of new Investment Asset classes, and Health and Pension issues. Compliance personnel also plan to actively participate on the Information Security Taskforce and any other identified new initiatives that impact the CalPERS enterprise.

The California Association of Public Retirement Systems has invited the Chief Compliance Officer to be a speaker at the 2008 General Assembly featuring “Vision, Education and Process, the Pillars of Public Pension Systems.” The CCO will be joined by other panel speakers to discuss “Mitigation of Investment Risk Through an Effective Compliance Program.”

The Chief Compliance Officer has been invited and has agreed to work jointly with the Public Pension Financial Forum Planning Committee to host an “Investment Compliance” track during their fall 2008 annual meeting. The annual meeting will present an additional opportunity for public pension fund compliance professionals, auditors and attorneys to network, educate and discuss current compliance issues in public pensions and emerging industry trends.

The New Year brings many opportunities for the Office of Enterprise Compliance and many challenges, as we continue to build our internal program and demonstrate our industry and public pension plan system leadership.

Sherry Johnstone
Chief Compliance Officer

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- ❖ The ECOM will conduct a comprehensive review of Real Estate compliance, identifying areas of highest risk, reviewing specific procedures, and monitoring for compliance.
- ❖ The ECOM will review policies and procedures for derivatives, identifying areas of highest risk, reviewing specific procedures, conducting best practices research and monitoring for compliance.
- ❖ The ECOM will review policies and procedures for Securities Lending operations, identifying areas of highest risk, reviewing specific procedures, conducting best practices research and monitoring for compliance.
- ❖ The ECOM and the LEGO will implement in the second quarter, a Personal Trading Policy, to assist staff in avoiding conflict of interest and ensure ethical and legally-compliant personal trading activity.
- ❖ The ECOM and the LEGO will review the revised derivatives policies as part of the INVO Policy Consolidation Project.
- ❖ The ECOM staff will develop processes and procedures for monitoring and periodic review of proxy voting records and trends.
- ❖ MHLP staff will develop an independent monitoring and review process for new loans and securitized product purchases in the MHLP portfolio.

- ❖ The ECOM will report to the Board regarding Real Estate compliance, including updates on Strategic Plan implementation and the Automated Real Estate Investment System (AREIS) Project.
- ❖ The ECOM will continue to monitor and report Fixed Income and Global Equity compliance violations.

- ❖ The ECOM will conduct a periodic follow-up review of prior compliance-related recommendations for AIM.
- ❖ The ECOM will continue to update the procedures manual as appropriate for the Investment CAM.

Training and Outreach

- ❖ The ECOM will continue to research and review available automated tools for commodity and Investment compliance.

Health Business Line Compliance Goals for 2008

Compliance Systems and Documentation

- ❖ The HBB and ECOM will establish and maintain a high level of collaboration on Health compliance activities.
- ❖ The HBB and ECOM will continue to identify applicable laws, rules, regulations and policies that apply to the Health Business Line, and update the Health Regulatory Matrix and Governance Framework, as appropriate.
- ❖ The Health CAM will research available automated tools to monitor and report on Health compliance activities.
- ❖ The Health CAM will attend health-related compliance conferences to have access to “best practices” and tools in compliance for related lines of business.
- ❖ The HBB, in partnership with the ECOM, will develop a Health Compliance Manual to include procedures for monitoring and reporting Health compliance.
- ❖ The HBB, in partnership with the ECOM, will update and prioritize processes that require compliance monitoring using the 2007 Compliance Risk Assessment and list of Division Key Processes.



Ongoing Compliance and Monitoring

- ❖ The HBB, OFAS and ECOM will continue to work with business lines enterprise-wide to mitigate or resolve HIPAA audit findings identified in the HIPAA Privacy and HIPAA Security Compliance Reviews.
- ❖ The HBB will continue working to resolve non-HIPAA audit findings.
- ❖ The HBB will continue to develop policies and procedures that comply with the Medicare Part D Retiree Drug Subsidy requirements.
- ❖ The ECOM will continue to monitor and report Health compliance violations.

Training and Outreach

- ❖ The ECOM will continue to provide education and outreach through compliance and ethics training for HBB staff.
- ❖ The ECOM will identify best practices in the Health industry and related industries that would benefit the Health compliance monitoring program.

Pension Business Line Compliance Goals for 2008

Compliance Systems and Documentation



- ❖ The ECOM will continue to work with the Pension Business Line to assess risk of policies, rules, and regulations, and determine compliance exposures and the impact to CalPERS of non-compliance.
- ❖ MBSB and AESB staff, in partnership with the ECOM, will continue to identify applicable laws, rules, regulations and policies that apply to the Pension Business Line toward the development of a comprehensive pension retirement regulatory matrix.
- ❖ The ECOM will create monitoring and reporting tools for pension and retirement compliance for the Benefits and Program Administration Committee.
- ❖ The ECOM will continue to research best practices in Pension compliance.
- ❖ The ECOM will monitor and assist with the development of the MBSB Delegation of Authority and Decision-Making Guide.
- ❖ The MBSD will continue to establish and update procedures to mitigate the risk of non-compliance.
- ❖ The MBSB will revise form letters, service credit costing packages and election documents as necessary to ensure information sent to members and employers is clear and understandably stated.
- ❖ The MBSB will review the Branch process for developing retirement program policies, and determine areas for improvement.
- ❖ The ERSD and the CORE will develop an external training strategy and implementation plan to reduce errors submitted by employers and improve the accuracy of members' benefits.
- ❖ The ERSD and the CORE will establish a high-level, time-sensitive inquiry resolution process.
- ❖ The ERSD and the CORE will develop a Quality Assurance Improvement Strategy and Implementation Plan to improve the accuracy of information provided to our customers.

- ❖ The ERSD and the CORE will draft a plan to identify major audit compliance issues, obtain employer input, make recommendations on ways to increase employer compliance, and resolve issues preventing employer compliance.
- ❖ The ERSD and the CORE will further expand the CERBT fund and continue outreach efforts to increase the number of agencies participating in the CERBT fund.
- ❖ The ERSD and the CORE will work to increase the number of external partners in the Direct Authorization Program for submitting transactions electronically, to reduce manual processing errors and improve accuracy and compliance.
- ❖ The ERSD and the CORE will continue to review and analyze areas of law that are ambiguous and develop a plan to address issues via legislative or regulatory action.

Ongoing Compliance and Monitoring

- ❖ The ECOM will continue to monitor and report Pension compliance violations.
- ❖ The ERSD and the CORE will continue to coordinate improved documentation of policies and procedures, legislative analysis and implementation, resolution of internal and external audits, regulations, and other compliance-related duties.
- ❖ The ERSD and the CORE will continue to work to resolve Contracting Agency review findings.

Training and Outreach

- ❖ The MBSB will continue to focus on job skills and personal development training of staff.
- ❖ The MBSD will implement the next phase of the CEC, which will allow members to participate in an expanding array of self-paced, online member education classes via my|CalPERS, improving member understanding and compliance.
- ❖ The MBSD will implement the new Employer Education Workshop, which is designed to improve customer understanding of the disability retirement processes and requirements.
- ❖ The ERSD and the CORE will continue to hold Employer Advisory Group meetings to build awareness and support of new pension and health technology system scheduled for deployment in late 2009.

- ❖ The ERSD will continue to implement the ERSD Staff Training Plan, by developing and delivering division-specific and job-specific training classes.
- ❖ The ERSD and the CORE will continue to enhance the CEC to improve the accessibility of procedures and training materials for employers.
- ❖ The ERSD and the CORE will host the 2007 National Conference of State Social Security Administrators, to provide education and information to administrators.
- ❖ The ERSD and the CORE will coordinate and plan for the 2007 Employer Educational Forum.

Legislation and Regulations

- ❖ The MBSB will implement SB 221 (Stats. 2007, Ch. 74), which amended the definition of “final compensation” for members who enter the Legislators’ Retirement System on or after January 1, 2008.
- ❖ The MBSB will implement SB 581 (Stats. 2007, Ch. 651), which:
 - requires transfer of the Volunteer Firefighter Length of Service Award System (VFLSAS) to the California State Fire Employees Welfare Benefit Corporation by March 1, 2008
 - repeals the current VFLSAS plan in CalPERS
- ❖ The MBSB will work with the LEGO to facilitate the implementation of required provisions of Revenue ruling 2006-43 regarding Employer “Pick-up” Contributions, IRC Section 414(h), by the January 1, 2009, compliance deadline.
- ❖ The MBSB will work with the LEGO to complete the analysis of Treasury Regulation 9325, Distributions from a Pension Plan upon Attainment of Normal Retirement Age, which will become effective January 1, 2009, for governmental plans.

Enterprise Business Line Compliance Goals for 2008

Compliance Systems and Documentation

- ❖ The ECOM, upon approval of Executive Management and in collaboration with the OFAS, will create an enterprise-wide “Risk Committee” to implement the compliance committee report and monitor and mitigate compliance risk throughout the organization.
- ❖ The ECOM, upon approval of Executive Management and in collaboration with the OFAS, will continue efforts to develop an internal hot line for complaints, including an issue escalation and resolution plan.
- ❖ The ECOM will develop a proposal for the business planning cycle to provide additional Compliance staff for infrastructure compliance monitoring and administrative support.
- ❖ The ECOM will recruit and hire a CAM for the Enterprise Business Line.
- ❖ The ECOM will prepare a plan to conduct compliance reviews of remaining Enterprise internal support divisions.
- ❖ The ECOM will continue to review existing policies in compliance with applicable laws and rules governing internal support divisions within the Enterprise Business Line.



Privacy Protection

- ❖ CalPERS will continue to convene CalPERS Privacy Protection and Security Task Force.
- ❖ The ISOF will continue to ensure the appropriate information security awareness training is provided to all CalPERS employees, consultants, and contractors.
- ❖ The ISOF will work with the ECOM and other program areas enterprise-wide, to continue to evaluate existing processes for additional ways to protect confidential information.

- ❖ The Web Communications Unit will update my|CalPERS to provide a higher assurance authentication that will enable my|CalPERS to deliver more sensitive transactions while significantly decreasing levels of risk.

Ongoing Compliance and Monitoring

- ❖ The ECOM will review previous audit reports of relevant internal support Divisions within the Enterprise Business Line.
- ❖ The CDOP will conduct the biennial bilingual survey and submit the resulting report to the SPB in October 2008, as required by the Dymally-Allatorre Bilingual Services Act.
- ❖ The CCCC will continue to expand its Quality Assurance Program, to increase call monitoring and coaching activities that will identify and support improved customer satisfaction and security.

Training and Outreach

- ❖ The ECOM will attend enterprise-related workshops and conferences to have access to “best practices” and compliance tools for related lines of business.
- ❖ The ECOM will issue compliance bulletins on an as-needed basis, on new compliance-related developments that need to be communicated to affected employees.
- ❖ The ECOM will enhance CalPERS online training tools to reinforce compliance education and awareness.
- ❖ The CDOP will coordinate the presentation of an Investment Workshop at a *Women in Finance Conference* in Spring 2008.
- ❖ The CDOP will continue to participate in the California Aspire Achieve and Lead Pipeline Project, which is a collaborative partnership with the California Public Utilities Commission, California Department of Insurance, and the State Bar of California, intended to close the gap between pre-school and professional achievement.
- ❖ The CDOP will increase the visibility of CalPERS commitment to diversity through attendance at state and national investment and diversity conferences, workshops, and meetings.

Legislation

- ❖ Program areas enterprise-wide will implement SB 14 (Stats. 2007, Ch. 355), regarding Military Service for California National Guard.
- ❖ The GOVA will establish a process to track all CalPERS legislative mandated reports, responsible parties within CalPERS, where the reports are stored, frequency, and deadlines.
- ❖ The INVO and ERSD will implement AB 554 (Stats. 2007, Ch. 318), expanding eligibility to participate in the CERBT to all California public agencies.

U.S. Sentencing Commission's Organizational Sentencing Guidelines

Because an organization is vicariously liable for actions taken by its agents (offenses by certain personnel) it is important for organizations to avoid culpability (involvement in or tolerance of these offenses) by demonstrating an effective compliance program – this becomes a factor in determining the amount of fines which may be levied against an organization.

The guidelines increase the fine range when organizations are more culpable and reduce the fine range when organizations are less culpable.

The steps an organization takes to prevent and detect criminal conduct and the organization's actions after an offense has been committed are important in determining a fine range.

Specifically, the organization's culpability is determined by

- the level or extent of the organization's prior history,
- whether an order was violated when the organization committed the offense,
- whether the organization obstructed or attempted to obstruct justice,
- whether the organization had an effective program to prevent and detect violations of law, and
- whether the organization reported the offense, cooperated fully in the investigation, and accepted responsibility for its criminal conduct.

Organizations reduce the risk of extensive fines by implementing compliance programs that are proactive in the promotion of ethical behavior.

The United States Sentencing Commission's Organizational Guidelines Manual "Chapter Eight - Sentencing of Organizations" requires organizations to (a) have an effective compliance and ethics program, (b) exercise due diligence and the promotion of an organizational culture that encourages ethical conduct and a commitment to compliance with the law, and (c) periodically assess the risk of criminal conduct and shall take appropriate steps to design, implement, or modify each requirement set forth in subsection (b) to reduce the risk of criminal conduct identified through this process and to:

- (1) exercise due diligence to prevent and detect criminal conduct.
- (2) promote a culture of ethical conduct and a commitment to compliance with the law.
- (3) use efforts not to include those within the substantial authority personnel of the organization any individual who the organization knew, or should have known through the

exercise of due diligence, has engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program.

(4) conduct effective training programs and otherwise disseminating information appropriate to such individuals' respective roles and responsibilities.

(5) take steps—(A) to ensure that the organization's compliance and ethics program is followed, including monitoring and auditing to detect criminal conduct; (B) to evaluate periodically the effectiveness of the organization's compliance and ethics program; and (C) to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization's employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation.

(6) The organization's compliance and ethics program shall be promoted and enforced consistently throughout the organization through (A) appropriate incentives to perform in accordance with the compliance and ethics program; and (B) appropriate disciplinary measures for engaging in criminal conduct and for failing to take reasonable steps to prevent or detect criminal conduct.

(7) After criminal conduct has been detected, the organization shall take reasonable steps to respond appropriately to the criminal conduct and to prevent further similar criminal conduct, including making any necessary modifications to the organization's compliance and ethics program.

Appendix B

All Staff Training and Development (ASTD) Mandatory Training Matrix

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Accessibility for handicapped. See also “reasonable accommodation (disability)”	The intent of the law is to make the workplace equally accessible to all, to reduce barriers to employment for those who are physically handicapped. It goes hand-in-hand with reasonable accommodation in the workplace (of a disability).	Federal law (Americans with Disabilities Act of 1990; Rehabilitation Act of 1973; Fair Employment and Housing Act, FEHA); Executive Order S-04-05 (LEAP, Limited Examination and Appointment Program)	Human Resources, ERMM (Reasonable Accommodation Officer); BOSS unit (hearing-impaired); OSSD (space planning); CDOP diversity analyst (for LEAP)	NEO; evaluation by space planning; compliance with reasonable accommodation request; division furniture contact request	All	As needed for self-identified staff
Conflict of interest/ incompatible activities. See also “ethics training and gift reporting”	The purpose of training is to learn to recognize economic interests from which a financial conflict of interest can arise. This is an eight-step self-assessment process.	GC 1090, 11146-11146.4, 81000 et seq., 87200 et seq., 87300, 87304; Title 2, Article 3, Sections 560, 18730 (CCR); Article XVI, section 17, CA constitution; PCC 10410; CA Political Reform Act; Fair Political Practices Commission regulations	LEGO; Chief Compliance Officer (Office of Enterprise Compliance); HRSD (ASTD)	Online training (Insider course); Fair Political Practices Commission video in HRSD Learning Center	Employees listed in PERS Conflict of Interest Code (see Insider)—generally SSM III & above; PERS Board members, some PERS consultants	annual
Contracts training	training specific to developing & administering PERS contracts	PCC Section 10310.5; CA Pension Protection Act of 1992 (Article XVI, section 17, CA constitution); PERS Board Resolutions 92-04B&92-04B-1, 3,5,6,7; OSSD-98-01; Delegation No. EXEC-95-101	OSSD contracts mgmt & procurement sections; HRSD (ASTD)	PERS admin manual (PAM) on Insider; hard-cover contracts training manual; ASTD courses	requesting division, contract mgr, Board, CEO, AEO Admin, Legal, OSSD CMS, PROS, FCSD, HR, Audits, IT, ISOF	As needed and applicable
Data processing See also “information security”	training & development related to usage of computers & software	SAM (State Administrative Manual) 4854; http://sam.dgs.ca.gov/TOC/4800/4854.htm	IT; mgmt; training coordinators; ISOF (Information Security Office); HRSD All Staff Training & Development (ASTD)	Internal training; HRSD (ASTD Learning Center); ASTD courses	All	As needed & applicable

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Defensive driving	The Department of General Services, Office of Risk and Insurance Management, approves and develops statewide driver training courses. Obtain course descriptions and scheduling information by accessing the DGS Training System Registration website, http://www.training.dgs.ca.gov , or by contacting the Defensive Driver Training Coordinator, Office of Risk and Insurance Management, Department of General Services, 707 Third Street, First Floor, West Sacramento, CA 95605, Telephone (916) 376-5309.	SAM (State Administrative Manual), http://sam.dgs.ca.gov travel sections, 0751, operator requirements (revised 9/07), 0752, defensive driver training (revised 11/07); Vehicle Code, section 1808.1 (Pull Notice Program)	Staff and supervisors of staff who drive (operate vehicles) on official State business; OSSD	Dept. of General Services 3 ½ hour classroom training; other DGS courses; other training; review drivers' records annually; New Employees Orientation	All employees who operate vehicles on official State business	At minimum, successful completion of an approved defensive driver training course once every 4 yrs (for frequent drivers)
Departmental training policy, plan, programs evaluation; total program evaluation	Relevant work-related training for all staff at PERS; responsibilities of state agency training dept. & trainers; New Employees Orientation (NEO)	DPA regulations 599.815-.819, 599.821, Govt. Code 19400-19406, 19995; Dept. of Finance Budget Letter 98-07; for NEO, relevant MOUs (union contracts)	Human Resources (All Staff Training & Development)	New Employees Orientation (NEO); thereafter as needed; Internal & external training; Learning Center (HRSD)	All newly appointed CalPERS employees	New Employees Orientation (NEO); thereafter as applicable
Diversity See also "harassment (sexual)"	Diversity is a fundamental business philosophy that values the differences of each individual and ensures equal opportunities for all staff. It is strategically and ethically driven, not just legally driven. It reflects the cultural, ethnic, and racial diversity of our stakeholders.	Executive Order S-04-05; two CalPERS issue memos	(CDOP) Diversity Outreach Program staff; Legal Office	Learning Center (HRSD), internal training; external consultants	All staff, including supervisors and consultants; CalPERS Board members	As needed & required; minimum once
Emergency response training (part of Injury & Illness Prevention Program) See also Injury & Illness Prevention Program	The Business Continuity and Emergency Response Units are responsible for developing, documenting, testing, and maintaining a comprehensive plan to be activated in the event that a natural or man-made disaster disrupts CalPERS ability to conduct normal business operations.	SAM 6560; CA Emergency Services Act; GC 8649; Executive Order B-48-78	Disaster Recovery Contact (OSSD); Business Continuity Coordinator (OSSD) (for CalPERS Business Recovery Plans); Emergency Response Coordinator (for Emergency Response Program)	Internal training by external consultants; business continuity plans for each division	Emergency response team of volunteer CalPERS staff with management support, business recovery contacts in each division	For emergency response-- Annual refresher+ intro 2-day training

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Employee assistance program (EAP) orientation	Program provides confidential problem assessment, short-term counseling, and referral services to employees and their families. Areas include personal, emotional and stress concerns, marital and family issues, financial and credit problems, legal matters, alcohol and drug abuse problems, along with dependent elder and child care issues. See http://www.dpa.ca.gov/workingfamilies/home_files/WorkandFamilyHandbook.pdf	HSC 11759.10-.17; GC 19998.5; DPA Reg 599.931	EAP Coordinator (HR) (Employee Relations Officer); division personnel analyst	New Employees Orientation; subsequent annual orientations or as providers change; internal or external training	All	At least once during employment
Employer-related training	The Actuarial and Employer Services Branch (AESB) is the liaison for employer-related issues. It is the mission of AESB to serve and partner with customers and stakeholders through maintaining and analyzing information, and communicating, educating and consulting. The AESB Employer Representatives may be able to provide consulting services via the telephone, video-conferencing, or on site visits to employer offices. Consulting services include discussing the process for amending CalPERS Contract, any payroll issues, membership issues, or any CalPERS issue. AESB's aim is to be a full service employee benefits consulting function within CalPERS. The primary responsibilities of the branch are: Actuarial Services, Employer Contracts and Education, Employer Reporting, Employer Contact Center, and Communication and Branch Administration (AESB, Help Me, Employer News, CalPERS On-Line and Insider websites, legislative analysis)	PERL (Public Employees' Retirement Law)	Actuarial & Employer Services Branch (AESB); Office of Data Administration	Internal training	Specific employees in divisions which deal with employers	As needed; ongoing

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Ergonomics (part of Injury & Illness Prevention Program) See also Injury & Illness Prevention Program	Ergonomics is the applied science of designing and arranging things that people use so people and things interact most efficiently and safely. To prevent pain and injuries associated with the computer, called cumulative trauma disorder injuries (CTDs) or repetitive motion injuries (RMIs) is the intent of ergonomics training (part of Injury & Illness Prevention Program).	LC 6400, 6401, 6401.7, Title 8, CCR, Section 3203, ANSI/HFS 100-1988; CAL/OSHA Reg: Title 8, CCR, Section 5110	All staff; including managers, supervisors, HR Health and Safety Officer (Ergonomic Program Coordinator); OSSD space planning unit; Return to Work Coordinator (HR)	New Employees Orientation; on-the-job training for call center staff	All	Ongoing as needed; minimum of once at start of employment
Ethics training and gift-reporting; see also “conflict of interest/ incompatible activities”	The purpose of training is to learn to recognize economic interests from which a financial conflict of interest can arise. This is an eight-step self-assessment process.	GC 1090, 11146-11146.4, 81000 et seq., 87200 et seq., 87300, 87304; Title 2, Article 3, Sections 560, 18730 (CCR); Article XVI, section 17, CA constitution; PCC 10410; CA Political Reform Act; Fair Political Practices Commission regulations	Legal Office; Chief Compliance Officer (Office of Enterprise Compliance, ECOM)	Online training (Insider course); Fair Political Practices Commission video in Learning Center; file Form 700	Employees listed in PERS Conflict of Interest Code (see Insider)—generally SSM III & above; PERS Board members, some PERS consultants	At start of employment for impacted staff
Harassment (Sexual) See also “diversity”.	The California Public Employees' Retirement System (CalPERS) is committed to ensuring a work environment that is free from all forms of discrimination, including sexual harassment. It is the policy of CalPERS to prohibit sexual harassment by or of a CalPERS employee or a person providing services to CalPERS pursuant to a contract. CalPERS has a zero tolerance for such conduct and expects its managers and supervisors to vigorously and visibly promote a harassment-free work environment.	GC 12940-12951; AB 1825 (FY 03/04) amended 8/17/07 (GC section 12950.1); Title VII, 1964 Civil Rights Act; CA Fair Employment & Housing Act; EEOC; CalPERS Zero Tolerance Sexual Harassment Policy, updated 10/01/07	Diversity Outreach Program staff; Legal Office; HR All Staff Training & Development	HR Learning Center (track & report internal training); State Personnel Board course; Living CalPERS Core Values (LCCV) course	Supervisors and all other staff at PERS; Board members; CalPERS consultants and contractors	All new supervisors within 6 months of start; every two years for all supervisory staff

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Health Insurance Portability & Accountability Act (HIPAA)	Overarching Federal law to limit fraud & abuse, reduce health care admin costs, and protect security, privacy and insurability of individuals & their protected health information; applicable to us both as members and to staff in health branches . The health program side of CalPERS is involved in providing continuity of health benefits to members. We provide administrative (security) training regarding HIPAA for HBB and EMHS staff.	Federal law (8/21/96): HIPAA Act: sections on Privacy, Transactions Code Sets, Security; Federal Dept. of Health & Human Services, Office of Civil Rights (45 C.F.R.) State of California, Office of HIPAA Implementation, www.calohi.gov SAM	HIPAA Coordinator/Privacy Officer in HBB; all supervisors; Information Security Office (ISOF)	www.calohi.gov Insider HIPAA compliance portal New Employees Orientation, L.E.A.D.E.R.	Primarily Health Benefits Branch (HBB); Office of Employer & Member Health Services (EMHS); secondarily all CalPERS staff, all contractors & consultants	At initial employment & annually thereafter (signed statement by staff); for contractors & consultants, at commencement of work
Information Security See also “data processing” and “HIPAA”	An information security officer shall be responsible for implementing state policies and standards regarding the confidentiality and security of information pertaining to his or her respective agency	Government Code 11771 & related; as of August 2007, new mandated online training through external vendor , New Horizons, division by division	ISOF (Information Security Office)	Internal training; ISSCA annual signed form filed in HR;; New Employees Orientation	All staff, including Executive staff, students, contractors, retired annuitants	Annually, beginning at start of employment (see HIPAA compliance)
Injury & Illness Prevention Program (includes emergency response training, ergonomics, medical services & First Aid/CPR certification, and Workplace Violence Prevention Program)	Each department shall establish, implement, and maintain an Injury and Illness Prevention program (IIPP). See http://www.dpa.ca.gov/workingtonfamilies/home_files/WorkandFamilyHandbook.pdf See pages 5, 6, 8, and 10 for the four IIPP included subsections to the left	CCR Title 8, Section 3203; LC 6401.7; SB 198, SAM 2580.4 (for State departmental safety coordinators)	Health & Safety Officer (HR); CalPERS Employee Relations Officer	New Employees Orientation; IIPP Insider document ; new job assignments; whenever new hazards identified; 8-day, 2-week DGS course (see http://www.training.dgs.ca.gov/course.asp?courseD=24)	Generally applicable to all; with specific training for all State departmental safety coordinators	Ongoing; as needed, begin at start of employment; within one year of appointment (SAM 2580.4) for all State departmental safety coordinators
Medical services & first aid/CPR certification (part of Injury & Illness Prevention Program) See also Injury & Illness Prevention Program	http://insider.calpers.ca.gov/building/lincolnpalaza/emergency/cpr-list.htm as of 12/20/07, list of CalPERS first aid/CPR certified staff, 2-year certification from month of issue	Cal/OSHA General Industry Safety Orders, Title 8, CCR, Section 3400	Disaster Recovery contact (OSSD); HR Employee Relations & Medical Management staff, specifically CalPERS First Aid/CPR Certification Program Coordinator	Certify staff in First Aid/CPR; identify staff who are already currently certified	Those identified by applicable OSSD and HR staff for certification or re-certification	Ongoing, as needed

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
New Supervisors training	Minimum 80 hours of training provided to new supervisors to help them succeed in their new roles, at least 40 of which may be on-the-job by a qualified higher level supervisor or manager, and at least 40 of which shall be structured & provided by a qualified instructor	Government Code 19995.4	Human Resources All Staff Training & Development (ASTD)	Three HR ASTD courses: L.E.A.D.E.R., Maximum Results, Lead by Example	Those staff promoted to supervisor from rank & file	Once within probationary period or within 12 months of supervisory appointment
Reasonable accommodation (disability). See also Americans with Disabilities Act of 1990 (accessibility for handicapped)	<p>An employer is required to provide reasonable accommodation for any disability identified in the ADA., as requested by self-identifying applicable staff</p> <p>Employees with disabilities have the right to equal access to employer-sponsored training that is available for job improvement, self - development, and upward mobility. In providing or sponsoring training, CalPERS is committed to doing the following:</p> <ul style="list-style-type: none"> • Inform employees on all training notices that reasonable accommodation will be provided, where appropriate, upon reasonable advance notification of need. • Provide the TTY number or the number for the California Relay Service so that deaf and hearing-impaired employees can access more information; ensure that facilities used for training are accessible to persons with disabilities. • Provide sign language interpreters, captioned film or videos, large print or Braille written materials and other such accommodations as appropriate or available. 	Americans with Disabilities Act of 1990 (ADA) and the Fair Employment and Housing Act, FEHA, which are Federal laws	Human Resources (Reasonable Accommodation Officer); space planners (OSSD); CalPERS Diversity Outreach Program (CDOP) staff	Compliance varies, according to individual situation as determined by individual staff "reasonable accommodation" request to HR or OSSD, see summary at left for training methods.	All	As needed for self-identified staff

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Records management	The CalPERS Records Management Program establishes and executes the policies and procedures for creating, modifying, storing and destroying business records.	SAM (State Administrative Manual) 1610	OSSD Records Management Unit; policy change/ review by EXEO, Office of Legal Services, and Office of Audits Services	Internal training by HR & Change Management (SMSD) staff	All; division managers implement for each division	Annual review by divisions
Toxic Exposure (part of Injury & Illness Prevention Program) See also Injury & Illness Prevention Program	If employer creates, obtains, or has access to records of exposure or medical records of employees exposed to toxic substances or harmful physical agents, then the employer must maintain the records for the length of employment of the employee plus 30 years; The employer must make these records available to employees, their representatives or the Division of Occupational Safety and Health (DOSH) without cost, within 15 days of a request	SAM (State Administrative Manual) 2590; CAL/OSHA safety order (General Industry Safety Orders, section 3204, Title 8, CCR)	Health & Safety Officer (Human Resources)	Keep records in Human Resources	All	Ongoing
Training provisions in current MOUs. See also “upward mobility”	In the Memorandum of Understanding (MOU), the union contract for each represented employee, provisions regarding training and education are found.	See current MOUs online at DPA.ca.gov , calcsea.org or seiu1000.org websites	All staff represented by unions (rank-and-file, not usually managers or supervisors)	Review hard copy contracts, or online MOUs as needed	All rank and file staff; all staff with MOUs	Review at start of employment, and as MOUs change
Upward mobility See also “training provisions in current MOUs”	Upward Mobility is the planned development and advancement of employees in low-paying occupations to entry technical, professional, and administrative positions in State departments. In addition to a formal Upward Mobility Program, a variety of opportunities for staff to develop skills to prepare for advancement is available through the CalPERS Learning Center, training classes, computer-based training, lunchtime workshops, corporate citizenship activities, on-the-job training, and other venues	Government Code 19400-19406, 19494	CalPERS Diversity Outreach Program staff (CDOP); Equal Employment Opportunity (EEO) officer in CDOP	CalPERS formal Upward Mobility Program is currently under development by the Office of Diversity Outreach Program	All	Ongoing

Identified training mandates	Summary	Related Rule, Law, or Regulation*	Ownership (Position Titles or Divisions)	Methods of Compliance & Training	Impacted Staff	Required Frequency of Compliance
Work/family	Benefits, policies & programs relating to work and family, that pertain to state employees. Various documents are at the DPA website.	Federal & state laws; see http://www.dpa.ca.gov/WorkingFamilies/final_report/2004_WFReport-hires.pdf ; review DPA regs for non-represented staff; MOUs for represented staff	Human Resources Division (Employee Relations and Medical Management)	Insider; New Employees Orientation; announcements as needed	All	Ongoing
Workplace Violence Prevention Program (included in Injury & Illness Prevention Program) See also Injury & Illness Prevention Program	The State agrees to meet with the Union to develop and provide training on a model Workplace Violence Prevention Program and make the program available to all departments.	Personnel Management Liaison 12/14/01 (DPA Memo)	Human Resources Division (Employee Relations and Medical Management)	Living CalPERS Core Values (LCCV) program; HR Learning Center resources; policy on Insider; http://insider.calpers.ca.gov/human-resources/hrpolicy/WorkplaceAnitViolence.asp	All	Ongoing

Definitions

AIM Program: Alternative Investment Management (AIM) is responsible for investing in domestic and international Private Equity investments, which are the securities of companies and partnerships that are not publicly traded. These investments include venture capital, growth capital, and buyout financing.

Business Lines: The combined activities and resources related to the accomplishment of a specific organizational goal (such as managing investments, or providing health insurance to members). CalPERS has identified three key business lines, each with its own unique focus and compliance issues. The three key business lines are **Investments**, **Health**, and **Pensions**.

CalSTRS: California State Teachers' Retirement System.

CAM: Compliance Area Manager. There is one CAM for each of the three primary business lines (Investments, Health and Pensions). The CAMs provide specialized program area support on subjects pertaining to the business line for which they are responsible.

Contracting Agency: A public agency or school that contracts with CalPERS for the provision of retirement and/or health benefits.

Control Structure: The ethical and procedural framework created by the combination of all the control systems throughout an organization.

Control Systems: The systems and procedures that have been established to provide ongoing compliance monitoring and mitigate the risk of noncompliance with relevant laws, regulations, guidance and policies.

Corporate Governance: The practices of company management and boards of directors who are elected to represent shareowners. Good corporate governance aligns the interest of management, boards and shareowners to sustain long-term stock performance. Poor governance typically stems from corporate policies and practices that diminish the voice and access of shareowners. The key initiatives of CalPERS corporate governance program are:

- Obtaining the right for shareowners to nominate and elect directors
- Curbing egregious executive pay
- Urging corporate disclosure regarding environmental and sustainability issues

ECOM: CalPERS Office of Enterprise Compliance. ECOM coordinates, facilitates, and monitors compliance activities throughout CalPERS.

Enterprise: For purposes of this report, the term “Enterprise” includes CalPERS:

- Board Members
- Officers
- Committee Chair persons
- Agents
- Consultants
- Employees

Fixed Income: The Fixed Income program is responsible for:

- In-house management of dollar-denominated securities for CalPERS
- Affiliated Funds
- The Deferred Compensation Program
- Limited duration for CalPERS
- Buying/selling mortgages in the Member Home Loan Program

The Fixed Income team actively manages on a total rate of return basis approximately \$60 billion of CalPERS assets in various fixed income instruments, including commercial real estate mortgages, corporate bonds, residential mortgages, treasury bills, treasury bonds, treasury notes, agency pass-throughs, and others.

Global Equity: CalPERS Global Equity program handles CalPERS investments in equity securities traded on any public market worldwide, including in-house management of domestic and international stocks, the Risk Managed Absolute Return Strategies, External Equity Managers, and the Corporate Governance Program.

HIPAA: The Health Insurance Portability and Accountability Act of 1996. HIPAA contains requirements regarding the protection of individual health information (privacy) and health insurance enrollment and coverage (portability).

Inflation Linked Asset Class: Asset Allocation/Risk Management is responsible for the new development and management of the inflation-linked asset class. The new class will enhance CalPERS ability to link the Fund to inflation through four sub-asset classes of infrastructure, commodities, forestland, and inflation-linked bonds. Investments in these sectors offer more stable long term returns that are less susceptible to market swings than common stocks.

MHLP: The Member Home Loan Program provides mortgages to eligible CalPERS members purchasing a home.

OPEB: Other Post-Employment Benefits. Under GASB statement 45, government employers must report their costs and financial obligations for future benefits (such as health or vision coverage) that will be provided in addition to employee pensions.

PEMHCA: Public Employees’ Medical and Hospital Care Act

PERL: Public Employees' Retirement Law

Protected Health Information: Protected Health Information (PHI) is information that communicates an individual's health status, provision of health care to the individual, or health insurance or payment status. PHI is protected under HIPAA, and violations may result in fines.

Proxy Voting: The process of casting shareholder votes through an agent legally authorized to act on behalf of another party.

Real Estate: CalPERS Real Estate program invests in domestic and international private equity real estate through external investment partners, and in public equity real estate with external partners and internal CalPERS managers.

Retiree Drug Subsidy: Under Medicare Part D, employers who provide prescription drug coverage to their retirees are eligible to receive a federal subsidy equal to 28% of qualifying prescription drug costs.

Sarbanes-Oxley: Public Company Accounting Reform and Investor Protection Act of 2002. Sarbanes Oxley established significant new requirements for the financial reporting and oversight of public companies.

Securities Lending: The process by which a brokerage lends securities owned by its clients to short sellers.

Supplemental Contribution Program: The Supplemental Contribution Program allows certain CalPERS members to supplement their CalPERS defined benefit retirement plan by using after-tax contributions.

State Alternate Retirement Program: The Alternate Retirement Program is a retirement savings program, administered by the Department of Personnel Administration, in which certain State employees are automatically enrolled for their first two years of employment with the State of California.

Supplemental Income Program: The Supplemental Income Program manages all CalPERS Defined Contribution Plans, including CalPERS 457 Deferred Compensation Plan, State "Peace Officers and Firefighters" Defined Contribution Plan, and Supplemental Contributions Program.

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